



State Investment Commission

Monthly Meeting Minutes

Wednesday, December 19, 2012

9:00 a.m.

Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:00 a.m., Wednesday, December 19, 2012 in Room 135, State House.

I. Roll Call of Members

The following members were present: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Paula McNamara, Ms. Marcia Reback, General Treasurer Gina Raimondo. Mr. Fay left at 10:52.

Also in attendance: Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Mr. John Burns, Ms. Judy Chambers, and Mr. David Glickman of Pension Consulting Alliance (PCA), General Policy Consultant and Real estate Consultant to the Commission; Ms. Sally Dowling, of Adler Pollock, Legal Counsel to the Commission; Mr. Robert Furuhjelm and Ms. Janine Peake of Nordic Capital; Anne-Marie Fink, chief investment officer and members of the Governor's and Treasurer's staff.

Treasurer Raimondo called the meeting to order at 9:00 a.m.

II. Approval of Minutes

On a motion by Mr. Reilly and seconded by Ms. Paula McNamara, it was unanimously **VOTED: To approve the draft of the minutes of the November 28, 2012 meeting of the State Investment Commission.**

Before moving to the agenda, Treasurer Raimondo took a moment to acknowledge the tragedy in Newtown, Connecticut. The Treasurer asked Ms. Fink and Cliffwater to go through our portfolio to see if our private equity managers own companies which distribute semi-automatic weapons. She explained Wellspring has a stake in United Sporting Company and as of January 1st they will no longer distribute the weapons. Anne-Marie is putting together a corporate governance program and someone will be at the board meeting in January to continue that conversation.

III. Nordic Capital Fund VIII Recommendation

Mr. Lynch introduced Mr. Furuhjelm and Ms. Peake.

Mr. Furuhjelm explained ERSRI has been an investor in Nordic since Fund III in 1998. Nordic has realized a net \$72 million with a net return of 3.4X on realized investments. They are the lead investor in 77 acquisitions and have invested 7 Billion Euros in the Nordic region.

Mr. Furuhielm pointed out they recently opened an office in Germany to evaluate opportunities in that market. He explained all of their transactions are large to mid-cap buyouts and about 40% of their total investments are in the healthcare space.

Mr. Furuhielm continued to review the book, explaining their offices, investors and investments geographic location. He stated they are very good at creating efficiencies while maintaining employee and customer loyalty in the businesses. He referenced accolades along these lines.

Ms. Booth Gallogly asked about the Nordic and European healthcare system and how this affects their investments and Mr. Furuhielm and Ms. Peake explained that dynamic.

Mr. Reilly asked for an update on Fund VII and they provided an update on their final six investments and their plan to continue to improve that process in Fund VIII.

Nordic left the room and Mr. Lynch provided investment and operations due diligence. He explained how this fit into the private equity portfolio as a whole.

On a motion by Ms. Booth Gallogly and seconded by Mr. Costello, it was unanimously **VOTED: to commit \$20 million to Nordic Capital, for investment in Nordic Capital Fund VIII predicated on satisfactory completion of all due diligence.**

IV. Hedge Fund Redemption

Mr. Lynch recommended a \$50M redemption of the Wexford Spectrum fund. He read the memo on why they came to this conclusion including their recent request for a side pocket and investments in private companies.

Ms. Fink agreed with Mr. Lynch and explained they are not fulfilling their mandate and role in the portfolio.

The board explained the timeline for getting the cash redemption. Ms. Fink said we have some time before the cash is received and she explained staff will be looking at a variety of options on where to reallocate the money.

Mr. Reilly asked if there is a penalty and Mr. Lynch said no. He explained there is a risk Wexford could put up a gate.

On a motion by Mr. Costello and seconded by Mr. Giudici, it was unanimously **VOTED: to accept the recommendation to redeem all investments in the Wexford Spectrum Fund.**

Mr. Lynch then explained the watch list process and said the internal investment committee put Gracie on a watch list because of instability in their partnership structure and because they have recently had some redemptions. Ms. Fink said this does not necessarily mean redemption, but the firm is being looked at very carefully.

V. Infrastructure Policy Statement

Ms. Chambers reviewed the policy statement, including how the committee plans to run the portfolio, what investment preferences are, what the risks are, strategic objectives, long term performance objectives with a benchmark. She listed prohibited investments including

nuclear facilities, correctional facilities and underlying assets with significant commodity exposure.

Ms. Chambers explained the section regarding “Rhode Island Investments”, saying they would encourage managers to look for investment opportunities in Rhode Island, but they should have the same risk-return expectations. She also explained the section on responsible contracting policies (RCP) in detail.

Mr. Costello asked how this policy compares to others and Ms. Chambers explained it was a relatively standard, straight-forward policy.

Treasurer Raimondo asked how many funds would be in the infrastructure portfolio and Ms. Chambers said the allocated capital to this space is 3% or about \$220M. She said there will be about 3-5 managers and Ms. Fink said it would most likely be at the lower end of that range.

Ms. Reback suggested the staff “shall” notify the SIC if a manager does not comply with ERSRI RCP instead of “may.” The board agreed. Ms. Reback also voiced concerns about letter “h” of infrastructure investment risks and a line on union recognition in the RCP.

Ms. Chambers explained this is standard pro-labor language and many other pension funds have adopted policies very similar to this.

The board discussed the issues raised and it was concluded they would seek the guidance of Mr. Emkin, a national leader in this area as well as legal staff.

The decision was made to revisit the policy next meeting in light of Ms. Reback’s concerns.

VI. Policy Guidelines for Swap Related QIRs

Ms. Fink explained this is something Russell our overlay manager asked us to put in place because they need it to do SWAPs for us as part of Dodd-Frank.

The committee discussed Russell’s role in the portfolio and explained they use SWAPs to get the portfolio back into policy. Ms. Fink explained this is a cheaper way to get back into policy day-to-day. It is a boiler plate policy and all of their other clients are being asked to approve a similar policy.

On a motion by Mr. Costello and seconded by Mr. Fay, it was unanimously

VOTED: to adopt the policy regarding qualified independent representatives as related to Swaps transactions.

VII. Real Estate Restructuring Plan

Mr. Glickman said the goal today is to provide an update of the decisions made previously about the real estate portion of the portfolio. He presented the portfolio by property sector diversification, geographic diversification, risk classification and vintage exposure by commitment year. The portfolio is currently 68% core and 32% non-core.

He explained REITS should be a part of the portfolio and can be used opportunistically and should make up between 0% and 25% of the portfolio.

Mr. Glickman and the board discussed secondary sales opportunities in the non-core part of the portfolio in detail. The committee stressed they do not want to sell just to sell and the pricing has to be competitive. He recommended putting additional funds into the good

performing managers in the portfolio. He then provided a pacing plan update and said this should take until 2015 to avoid vintage year concentration risk.

VIII. Legal Counsel Report

There was no legal update.

IX. CIO Report

Ms. Fink reviewed November estimated performance in each asset class. She reviewed detractors and best performers. She explained with the markets now performing well it is a good thing we did not put the hedge on. She pointed out the FDIC blanket insurance is going away at the end of the year and she is working with Mr. Vin Izzo, cash manager to review that effect on the portfolio. All the portfolio's deposits are fully collateralized, so the effect is minimal. She provided a brief update on the variable rate and banking RFPs. She then gave a brief update on the December markets to date.

X. Treasurer's Report

Treasurer Raimondo thanked the committee for all their work this year to improve the portfolio.

XI. Adjournment

There being no other business to come before the Board, on a motion by Ms. Booth Gallogly and seconded by Mr. Giudici the meeting adjourned at 11:13 a.m.

Respectfully submitted,

Gina M. Raimondo
General Treasurer